



CO2 GRO Inc.

Consolidated Financial Statements
(expressed in Canadian dollars)

**As at and for the years ended
December 31, 2020 and 2019**

Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of CO2 Gro Inc.

Opinion

We have audited the consolidated financial statements of CO2 Gro Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Jessica Glendinning.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 26, 2021

CO2 GRO Inc.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

As at	December 31, 2020	December 31, 2019
Assets	\$	\$
Current assets		
Cash	945,419	438,428
Sales taxes recoverable	42,472	28,953
Accounts receivable <i>(note 7)</i>	-	7,193
Prepaid expenses <i>(note 8)</i>	59,533	22,848
Inventory <i>(notes 4.9 & 9)</i>	165,566	179,619
Total current assets	1,212,990	677,041
Non-current assets		
Intangibles, net <i>(note 10)</i>	117,215	30,300
	117,215	30,300
Total assets	1,330,205	707,341
Liabilities		
Current liabilities		
Trade payables and accrued liabilities <i>(note 11)</i>	301,868	169,573
Deferred revenue <i>(note 4.15)</i>	4,345	-
Due to related parties <i>(note 13)</i>	2,496	137,733
Total current liabilities	308,709	307,306
Total liabilities	308,709	307,306
Shareholders' equity		
Common shares <i>(note 12.2)</i>	16,310,249	15,399,817
Reserve for warrants <i>(note 12.3)</i>	621,993	130,461
Contributed surplus <i>(note 12.4)</i>	4,174,669	3,960,737
Accumulated deficit	(20,085,415)	(19,090,980)
Total shareholders' equity	1,021,496	400,035
Total liabilities and shareholders' equity	1,330,205	707,341

Going concern *(note 1)*

Significant contracts, commitments and litigation *(note 18)*

Subsequent events *(note 22)*

Approved for issuance by the Board on April 26, 2021

"Michael Boyd", Director

"Rose Marie Gage", Director

The accompanying notes are an integral part of these consolidated financial statements.

CO2 GRO Inc.

Consolidated Statements of Operations and Comprehensive Loss

(expressed in Canadian dollars, except weighted average number of common shares outstanding)

	Years ended	
	December 31, 2020	December 31, 2019
	\$	\$
Revenue (note 15)	91,248	11,137
Cost of sales (note 16)	(200,190)	(113,479)
Gross margin	(108,942)	(102,342)
Expenses		
Administration (note 14.2)	96,686	274,878
Amortization	3,142	1,843
Compensation	166,245	329,592
Consulting fees	91,188	72,783
Foreign exchange (gains) losses	(10,541)	33,860
Investor relations and public reporting costs	139,485	96,123
Professional fees	106,345	126,327
Research and development (note 17)	83,739	172,840
Share-based compensation (note 12.5)	213,932	323,042
Total expenses	890,221	1,431,288
Operating loss	(999,163)	(1,533,630)
CEBA grant component (note 14.1)	12,387	-
Change in expected credit loss and bad debts (note 7)	(6,222)	(1,657)
Gain on settlement of accounts payable (note 11)	-	59,090
Gain on sale of trademarks	1,643	-
Interest (expense) income	(3,080)	2,176
Loss and comprehensive loss for the year	(994,435)	(1,474,021)
Basic and fully diluted loss and comprehensive loss per share	(0.014)	(0.022)
Weighted average number of common shares outstanding	72,578,247	66,892,173

The accompanying notes are an integral part of these consolidated financial statements.

CO2 GRO Inc.
Consolidated Statements of Changes in Equity
(expressed in Canadian dollars)

	Common shares		Shares to be issued	Reserve for Warrants	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount					
		\$	\$	\$	\$	\$	\$
Balance at December 31, 2018	63,087,662	14,008,856	2,000	304,461	3,879,572	(17,616,959)	577,930
Shares issued for services <i>(note 12.2 (iv))</i>	10,695	2,000	(2,000)	-	-	-	-
Exercise of warrants	3,737,500	426,500	-	-	-	-	426,500
Fair value of exercised warrants	-	174,000	-	(174,000)	-	-	-
Exercise of options	809,449	138,949	-	-	-	-	138,949
Fair value of exercised options	-	241,877	-	-	(241,877)	-	-
Shares for debt <i>(note 12.2 (x))</i>	471,698	125,000	-	-	-	-	125,000
Adjustment to shares for debt <i>(note 11)</i>	-	282,635	-	-	-	-	282,635
Share-based compensation <i>(note 12.5)</i>	-	-	-	-	323,042	-	323,042
Loss and comprehensive loss for the year	-	-	-	-	-	(1,474,021)	(1,474,021)
Balance at December 31, 2019	68,117,004	15,399,817	-	130,461	3,960,736	(19,090,980)	400,035
Shares issued for cash <i>(note 12.2(i))</i>	11,498,695	1,379,844	-	-	-	-	1,379,844
Fair value of issued warrants <i>(note 12.2(i))</i>	-	(491,532)	-	491,532	-	-	-
Cash issuance costs	-	(5,105)	-	-	-	-	(5,105)
Adjustment for settlement of amounts due to related party <i>(note 13)</i>	-	27,225	-	-	-	-	27,225
Share-based compensation <i>(note 12.5)</i>	-	-	-	-	213,932	-	213,932
Loss and comprehensive loss for the year	-	-	-	-	-	(994,435)	(994,435)
Balance at December 31, 2020	79,615,699	16,310,249	-	621,993	4,174,669	(20,085,415)	1,021,496

The accompanying notes are an integral part of these consolidated financial statements.

CO2 GRO Inc.
Consolidated Statements of Cash Flow
(expressed in Canadian Dollars)

	Years ended	
	December 31, 2020	December 31, 2019
	\$	\$
Operating activities		
Net loss	(994,435)	(1,474,021)
Non-cash items:		
Adjustment on settlement amounts due to related parties <i>(note 13)</i>	27,225	-
Amortization and depreciation	3,143	1,843
CEBA grant component <i>(note 14.1)</i>	(12,387)	-
Change in expected credit losses and bad debts	6,222	1,657
Gain on settlement of accounts payable <i>(note 11)</i>	-	(59,090)
Interest accretion	2,387	-
Share-based compensation <i>(note 12.5)</i>	213,932	323,042
Net change in non-cash working capital items <i>(note 20)</i>	86,458	(65,157)
Cash used for operating activities	(667,455)	(1,271,726)
Financing activities		
Proceeds from issuance of common shares	1,379,844	-
Issue costs	(5,105)	-
Exercise of options and warrants	-	565,449
Proceeds from Government loan <i>(note 14.1)</i>	40,000	-
Proceeds from Government loan <i>(note 14.2)</i>	15,000	-
Repayment of Government loan <i>(note 14.1)</i>	(30,000)	-
Repayment of secured loan	-	-
(Repayment to)/advanced from related parties <i>(note 13)</i>	(135,237)	(142,963)
Cash provided from financing activities	1,264,502	422,486
Investing activities		
Purchase of intangibles	(90,056)	(32,143)
Cash used for investing activities	(90,056)	(32,143)
Increase (decrease) in cash for the year	506,991	(881,384)
Cash at beginning of year	438,428	1,319,812
Cash at end of year	945,419	438,428
Supplemental cash flow information		
Non-cash financing activities		
Related-party gain on settlement of debt <i>(note 11)</i>	27,225	282,635
Settlement of debt with issuance of shares <i>(notes 11 & 12.2(x))</i>	-	125,000

The accompanying notes are an integral part of these consolidated financial statements.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

1. General information and going concern

CO2 GRO Inc. (“**CO2 GRO**” or the “**Company**”) was incorporated under the provisions of the Business Corporations Act (Ontario) on September 17, 2010, and trades on the TSX Venture Exchange (“**TSXV**”) under its trading symbol, “**GROW**”.

Dissolved CO₂ plant-enrichment platform: CO2 GRO’s sole focus is commercializing its patent-licensed CO2 gas infusion technology and its patent-pending US PTO CO2 Delivery Solutions system (“**CO2 Delivery Solutions™**”), both of which form the Company’s saturated CO2 solutions plant platform.

The registered and head office of the Company is located at 40 King Street West, Suite 5800, Toronto, Ontario, M5H 3S1, Canada.

These consolidated financial statements (the “**Consolidated Financial Statements**”) have been prepared using International Financial Reporting Standards (“**IFRS**”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business for the foreseeable future. The Company is in the development stage and has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations. CO2 GRO’s ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurance that it will be successful in doing so. These material uncertainties lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness, ultimately, of the use of accounting principles applicable to a going concern. The Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of preparation

2.1 Statement of compliance

The Consolidated Financial Statements including comparatives have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (the “**IASB**”) and the interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

The Consolidated Financial Statements were approved and authorized for issuance by the Board on April 26, 2021.

2.2 Basis of presentation

The Consolidated Financial Statements have been prepared on a historical cost basis with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, the financial statements have been prepared using the accrual basis of accounting, except for cash flow information and are presented in Canadian dollars, the Company’s functional currency.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

The preparation of the Consolidated Financial Statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

2.3 Basis of consolidation

The Consolidated Financial Statements consolidate the accounts of the Company and all its subsidiaries. The Company has the following inactive, wholly-owned subsidiaries: Pure Polar Canada Inc., CO2 GRO (US) Inc., BlueOcean Shrimp Products Inc., Asta NutraSciences Inc., BlueOcean Algae Inc., Solutions4CO₂ USA, Inc., 70717 Newfoundland and Labrador Limited ("70717") and virtually inactive wholly-owned subsidiary, Pure Polar Labs Inc. ("Pure Polar"). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

The Company owns a 50% equity interest in 2453969 Ontario Inc., an inactive joint arrangement. The Company accounts for this arrangement using the equity method in accordance with IFRS 11 'Joint Arrangements' ("IFRS 11").

3. Pending accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2021. The following IFRS amended standards have been issued but not yet adopted, as they are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of the amendments to IFRS 10, is yet to be determined, however early adoption is permitted. The Company has not yet adopted this standard and is assessing its impact on its consolidated financial statements.

IAS 1 – Presentation of Financial Statements ("IAS 1"). In January 2020, the classification of liabilities as current or non-current was amended. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022, retrospectively in accordance with IAS 8 – Accounting Policies, changes in accounting estimates and errors. The Company has not yet adopted this amendment and is currently assessing the effects on its consolidated financial statements.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

4. Summary of significant accounting policies

4.1 Common shares, shares to be issued, contributed surplus and reserve for warrants

Common shares, shares to be issued, contributed surplus and reserve for warrants are classified as shareholders' equity. Costs directly attributable to the issuance of these securities is recognized as a deduction from shareholders' equity.

4.2 Cost of sales

Cost of sales includes the cost of equipment that has been sold and deployed to customers, purchase discounts, freight and shipping costs, consumable parts and tools and any inventory written down to realizable value during the year.

4.3 Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets are classified in one of the three categories: (i) amortized cost; (ii) Fair Value Through Other Comprehensive Income ("FVTOCI"); or (iii) FVTPL.

(i) Amortized cost

Financial assets that are debt instruments and are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are measured at amortized cost at each subsequent reporting period. The Company's cash and accounts receivables are subsequently measured at amortized cost.

(ii) FVTOCI

Financial assets that are debt instruments and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal outstanding, are measured at FVTOCI. In addition, the Company may, at initial recognition, make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity instrument is held for trading. Currently, the Company has no financial assets measured at FVTOCI.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

(iii) FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured subsequently at FVTPL. Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a business model with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. In addition, the Company may, at initial recognition, make an irrevocable election to designate a financial asset as FVTPL. A financial asset is designated as FVTPL when such classification eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring the financial asset on different basis. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value of the financial assets are recognized in the consolidated statement of operations. Currently, the Company has no financial assets measured at FVTPL.

Impairment of financial assets

For financial assets measured at amortized cost, the Company recognizes lifetime expected credit losses (“ECL”) when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default on the financial asset at the reporting date with the risk of default occurring at the initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. The Company presumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or on initial recognition it is part of a portfolio of identified financial

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative financial liability.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis.

Financial liabilities classified or designated at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss. However, for financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Company classifies accounts payable and accrued liabilities and due to related parties at amortized cost.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.4 Impairment of non-financial assets

At each reporting date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

An impairment loss is recognized immediately in the statement of operations, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

4.5 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Company's Consolidated Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign currency exchange rates prevailing at the dates of the transactions. Generally, foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an Company's functional currency are recognized in the consolidated statements of operations.

4.6 Government assistance

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as a reduction of the non-current assets in the consolidated statement of financial position, and transferred to the consolidated statement of operations on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognized as a reduction of the related expenses over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the consolidated statement of operations in the period in which they become receivable.

CO2 GRO Inc.

Notes to Consolidated Financial Statements (expressed in Canadian dollars)

As at and for the Years Ended December 31, 2020 and 2019

4.7 Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in shareholders' equity, in which case, the income taxes are also recognized directly in shareholders' equity. Current income taxes are the expected income taxes payable on the taxable income for the period, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous periods. In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated statements of financial position. Deferred income taxes are determined on a non-discounted basis, using income tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income taxes are provided on temporary differences arising on investments in subsidiaries, except, in the case of subsidiaries, when the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. When applicable, deferred income tax assets and liabilities are presented as non-current.

4.8 Intangible assets

Intangible assets are comprised of patents (or costs incurred in the perfection of patents), which are amortized over 17 years and are reviewed for impairment whenever facts and circumstances indicate that their carrying values may not be fully recoverable.

The Company evaluates the recoverability of any indefinite-life intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.

As at December 31, 2020 and 2019, the Company has no indefinite-life intangible assets.

4.9 Inventory

Inventory is valued at the lower of cost and net realizable value. The Company reviews inventory for obsolescence and shrinkage and any such inventory is written down to net realizable value.

4.10 Investment in joint ventures

Pursuant to IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. Joint arrangements represent arrangements in which two or more parties have joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. Joint arrangements can be classified as either a joint operation or a joint venture. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Interests in joint ventures are accounted for using the equity method of accounting. Under the equity method, the Company's initial investment is recognized at cost and subsequently adjusted for the Company's share of the joint venture's income or loss, less distributions received.

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4.11 Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds on the exercise of the options, warrants and finders’ warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2020 and 2019, all the outstanding stock options, warrants and finders’ warrants were anti-dilutive.

4.12 Prepaid expenses

Prepaid expenses consist of services or products that have been paid, but for which the Company has not yet obtained the benefit.

4.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value when the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

4.14 Research and development

Research and development costs are expensed as they are incurred. However, development costs are recognized as intangible assets when they meet the following criteria: a) the feasibility of the product has been demonstrated, b) management intends to produce the product and has the capacity to bring it to market or use it, c) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, d) a defined market for the product exists, e) the Company has the resources to complete the project and f) the development costs can be evaluated reliably.

4.15 Revenue and deferred revenue

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferred goods and services to a customer. Revenue presented in the consolidated statement of operations and comprehensive loss represents revenue from the sale of equipment and installation of equipment, less expected price discounts, returns, and rebates. The Company’s contracts with customers for the sales of its Delivery Solutions™ equipment, and in some cases, the installation of the equipment, consist of one performance obligation. The Company recognizes revenue at the point in time when control is transferred to the customer, which is on shipment or upon completion of installation, depending on the contract. The Company’s payment terms range from 30 to 60 days from the transfer of controls.

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The Company generally charges customers an upfront payment that is due upon signing of the sales contract. Those amounts may be received prior to the Company fulfilling its performance obligation and recognizing the sales revenue (see note 4.14). Amounts received and held by the company for which its performance obligation has not been met, are recorded as deferred revenue. Upon completion of its performance obligations, the respective amount is transferred to revenue.

4.16 Sales taxes recoverable

Sales taxes recoverable represent harmonized or goods and services sales taxes paid within Canada that are refundable.

4.17 Share-based compensation

The Company grants stock options to certain directors, employees, consultants and advisers. Each tranche in an award is considered a separate award with its own vesting period and grant-date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model, which requires six key inputs to determine the fair value: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Upon the expiry of unexercised options or warrants, the amount expensed to the expiry date is transferred to retained earnings (deficit). Upon the exercise of options or warrants, the cash received and the original fair value is allocated to common shares. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

4.18 Significant accounting judgments and estimates

The preparation of the Consolidated Financial Statements requires management to make and use judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The following are the estimates and judgments applied by management that most significantly affect the Company's Consolidated Financial Statements. These estimates and judgments may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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Significant accounting estimates

i) Share-based compensation expense

The Company estimates share-based compensation expense at the grant-date based on the award's fair value as calculated by an options calculator and is recognized over the vesting period. The model requires various judgmental assumptions, including volatility, forfeiture rates and expected stock option life. Changes to the assumptions selected by management and used in an options calculator could materially affect the Company's share-based compensation expense.

ii) Intangible asset carrying values and impairment charges

In the determination of carrying values and impairment, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets, and reviews objective evidence to support whether the assets have a significant or prolonged decline in fair value. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

iii) Valuation of inventory

The Company carries inventory on its accounts at the lower of cost and net realizable value. Judgment is required to evaluate when a write-down of inventory might be necessary and is required in the evaluation of available data to determine net realizable value.

iv) Research and development expenditures

Management monitors the progress of internal research and development. Significant judgement is required in distinguishing the research phase from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred.

Significant accounting judgements

v) Determination of the categories of financial asset and liabilities.

vi) The ability of the Company to continue as a going concern.

vii) The determination of the value of current and deferred income taxes.

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and

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activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

viii) *Impairments*

IFRS requires management to undertake an annual assessment of indicators of impairment of intangible assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Should an indicator of impairment be present, the recoverable amount of the asset must be calculated. Impairment testing is an area involving management's judgment, requiring assessment as to whether the carrying amount of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections that have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections or changes in its business focus, could significantly affect the Company's impairment evaluation and, hence, results. Management's review includes the key assumptions related to sensitivity in the cash flow projections.

ix) *Commitments and litigation.* See note 18.

4.19 Trade payables and accrued liabilities

Trade payables and accrued liabilities are, in part, obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables and accrued liabilities are classified as current liabilities if payment is due within one year or less. If not, they are classified as non-current liabilities. Trade payables and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

4.20 Warrants

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued as part of the Company's public and/or private placements. Proceeds from financings, net of issuance costs, are allocated between common shares and warrants issued using the relative fair value method.

5. *Liquidity and capital resources*

The Company's main objective in managing capital is to ensure sufficient liquidity to pursue and fund product development, production, promotion and sales. Secondly, the Company strives to continue to fund research and development and pursue its growth strategy, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is considered to be its shareholders' equity. The Company's primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. The Company currently funds these requirements from existing cash resources and/or cash raised through the issuance of debt, common shares and/or warrants. The Company's objectives when managing capital is to ensure the Company will

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continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended December 31, 2020 or 2019. The Company is not subject to any capital requirements by lending institution or regulatory body, other than by the continued listing requirements of the TSXV.

6. Financial instruments and risk management

6.1 Financial instruments

As at December 31, the Company held the following financial instruments:

	2020	2019
	\$	\$
Financial assets		
Cash	945,419	438,428
Accounts receivable	-	7,193
	945,419	445,621
Financial liabilities		
Accounts payable and accrued liabilities	301,868	169,573
Due to related parties	2,496	137,733
	304,364	307,306

The carrying and fair values of these financial instruments are approximately equivalent because of the short-term nature of these instruments.

Basis of fair values

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company has no financial instruments carried at fair value to measure in the fair value hierarchy.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

6.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2020, the Company had \$308,709 (2019 - \$307,306) of liabilities with a maturity of one year or less and working capital of \$904,281 (2019 - \$369,735). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

6.3 Credit risk

Credit risk is derived from cash and accounts receivable. The Company places its cash in deposit with major Canadian financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit.

The carrying amount of cash and trade accounts receivable represents the Company's maximum exposure to credit risk, which amounted to \$945,419 at December 31, 2020 (December 31, 2019 - \$445,621). The allowance for doubtful accounts as at December 31, 2020 is \$nil (December 31, 2019 - \$1,657). See note 7.

As at December 31, 2020 and 2019, the Company's accounts receivable, net of the allowance for doubtful accounts, was aged as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Current	-	4,706
1 – 30 days	-	-
31 – 60 days	-	-
61 – 90 days	-	-
Over 90 days	-	2,487
	-	7,193

6.4 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk). The Company is not subject to significant market risk.

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6.5 Currency risk

The Company's functional currency and the majority of its operations have been conducted in Canadian dollars. CO2 GRO occasionally conducts business in United States ("US") dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. The assets and liabilities primarily affected are cash, accounts receivable and trade payables and accrued liabilities that are denominated in foreign currencies. The Company has recognized currency exchange gains the year ended December 31, 2020 of \$10,541 (2019 – losses of \$33,860).

Management believes foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution.

As at December 31, 2020 and 2019, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure (\$Cdn)	
		December 31, 2020	December 31, 2019
Cash	US dollar	2,126	87,368
Accounts receivable, gross	US dollar	-	-
Accounts payable and accrued liabilities	US dollar	(74,448)	(58,861)
		(73,322)	28,507

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the period by approximately \$7,000 (2019 – \$3,000).

7. Accounts receivable

	December 31, 2020	December 31, 2019
	\$	\$
Receivables	-	8,850
Allowance for expected credit losses	-	(1,657)
	-	7,193

Generally, the receivables are on terms due within 30 days. At December 31, 2019, the receivables are due from two customers.

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The Company has recognized changes in expected credit losses for the year ended December 31, 2020, of \$(1,657) (2019 - \$1,657) and bad debts expense of \$7,879 (2019 - \$nil).

8. Prepaid expenses

Prepaid expenses represent costs expended by the Company for which it has not yet received value. The full amount of the prepaid balance at December 31, 2020, is expected to be utilized during the upcoming year, with any portion consumed being expensed through the consolidated statements of operations and comprehensive loss, and any unconsumed portion reallocated to the appropriate consolidated statements of financial position classification.

As at December 31, 2020 and 2019, the prepaid expenses of the Company are detailed as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Administration	-	8,395
Consulting	7,500	7,500
Cost of sales	1,507	-
Insurance	2,952	6,953
Investor relations and public reporting	36,584	-
Legal fees	10,990	-
Total	59,533	22,848

9. Inventory

A continuity of the Company's inventory, follows:

	\$
Opening balance, December 31, 2018	-
Purchases of raw materials	289,410
Cost of sales – inventory sold (note 17)	(14,879)
Cost of sales - consumable parts (note 17)	(94,912)
Finished good balance at December 31, 2019	179,619
Purchases of raw materials	186,137
Cost of sales – inventory sold (note 17)	(87,592)
Cost of sales – consumable parts (note 17)	(90,042)
Cost of sales – commissions (note 17)	(12,481)
Cost of sales – freight, delivery and purchase discounts (note 17)	(10,075)
Finished goods balance at December 31, 2020	165,566

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10. Intangible assets, net

Cost	Patents
	\$
December 31, 2018	32,144
Additions	-
December 31, 2019	32,144
Additions	90,056
December 31, 2020	122,200

Accumulated amortization

	\$
December 31, 2018	-
Amortization	1,843
December 31, 2019	1,843
Amortization	3,142
December 31, 2020	4,985

Net Book Value

December 31, 2019	30,300
December 31, 2020	117,215

11. Trade payables and accrued liabilities

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases and financing activities. The usual credit period taken for trade purchases is between 30 and 90 days.

The following is an analysis of the Company's trade payables and its accrued liabilities:

	December 31, 2020	December 31, 2019
	\$	\$
Administration	89,813	40,176
Compensation	18,083	225
Consulting	639	-
Cost of sales	33,357	-
Investor relations and public reporting costs	31,686	1,188
Professional fees	24,536	23,070
Research and development	3,580	3,580

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Trade payables and accrued liabilities	201,694	68,239
Disputed amounts from discontinued business segments	100,174	101,334
Total trade payables and accrued liabilities	301,868	169,573

In May 2019, 471,698 common shares with a fair value of \$125,000, were issued in settlement of related-party debt (note 13.2 (ix)). Pursuant to IFRIC 19.6, an addition of \$282,635 was made to common shares (being the difference between the amount of the retired debt and the fair value of the shares issued).

In May 2019, the Company settled an outstanding legal claim with its former President and CEO. A gain on the settlement of accounts payable of \$59,090 has been recorded in the statements of operations and comprehensive loss.

12. Common shares

12.1 Authorized

The Company's authorized share capital consists of an unlimited number of Common shares.

12.2 Issued and outstanding

2020:

- (i) In September 2020, the Company completed a private placement of 11,498,695 units at \$0.12 per unit, raising proceeds of \$1,379,844. Each unit comprised one common share and one common share purchase warrant. Each warrant is exercisable at \$0.15 until February 12, 2022, into one common share.

The relative fair value of \$491,532 for the warrants, was estimated using the Black Scholes option pricing model with the following assumptions: Common share price of \$0.15, term of eighteen months, risk-free rate of 2.9%, volatility of 124.6% and an exercise price of \$0.15.

Director and officer participation in the Financing amounted to \$179,843 (note 13).

2019:

- (ii) In January 2019, 500,000 warrants each with an exercise price of \$0.12 and an expiry date of December 14, 2022, were exercised raising \$60,000 of proceeds for the Company. The fair value of \$20,000 of the exercised warrants was transferred from reserve for warrants to common shares.
- (iii) In January 2019, 150,000 options each with an exercise price of \$0.19 and an expiry date of January 24, 2023, were exercised by key management (note 14) raising proceeds of \$28,500. The fair value of \$28,526 was transferred from contributed surplus to common shares.
- (iv) In January 2019, 10,695 shares with a fair value of \$2,000, were issued for December 2018 management services provided by the Company's CFO. The fair value was transferred from shares to be issued to common shares.

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- (v) In February 2019, 1,387,500 warrants each with an exercise price of \$0.12 and an expiry date of December 14, 2022, were exercised raising \$166,500. The fair value of \$55,500 was transferred from contributed surplus to common shares.
- (vi) In March 2019, 1,300,000 warrants each with an exercise price of \$0.12 and expiry dates of December 14, 2022 and December 19, 2022 for 987,500 and 312,500 warrants, respectively, were exercised raising \$156,000. The fair value of \$52,000 was transferred from reserve for warrants to common shares.
- (vii) In March 2019, 250,000 finders and corporate finance warrants, each with an exercise price of \$0.08 and expiry dates of December 14, 2019 and December 19, 2019 for 212,500 and 37,500 warrants respectively, were exercised raising proceeds of \$20,000. The fair value of \$21,000 was transferred from reserve for warrants to common shares.
- (viii) In March 2019, 335,555 options (150,000 by key management, note 14) with exercise prices between \$0.135 and 0.22 and expiry dates between February 15, 2020 and October 1, 2024, were exercised raising proceeds of \$59,750. The fair value of \$107,490 was transferred from contributed surplus to common shares.
- (ix) In April 2019, 157,894 options (7,894 by key management, note 14) were exercised raising \$24,000. The fair value of \$87,241 for the exercised options, was transferred from contributed surplus to share capital.
- (x) In May 2019, 471,698 common shares with a fair value of \$125,000, were issued in settlement of related party debt. Pursuant to IFRIC 19.6, the gain on the settlement of \$282,635 was recognized as an increase to the capital of the Company.
- (xi) In September 2019, 70,000 options were exercised raising \$9,450. The fair value of \$5,896 for the exercised options, was transferred from contributed surplus to share capital.
- (xii) In October 2019, 96,000 options were exercised raising proceeds of \$17,250. Concurrently with the exercise, the fair value of the exercised options of \$12,723, was transferred from contributed surplus to common shares.
- (xiii) In October 2019, 300,000 warrants were exercised raising proceeds of \$24,000. Concurrently with the exercise, the fair value of the exercised warrants of \$25,500, was transferred from reserve for warrants to share capital.

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12.3 Reserve for warrants

The outstanding issued warrants balance as at December 31, 2020 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price \$	Fair value \$
February 12, 2022	Warrants	11,498,695	0.15	491,532
December 14, 2022	Warrants	3,887,500	0.12	100,000
December 19, 2022	Warrants	75,000	0.12	58,500
Cash costs allocated to warrants				(28,039)
Total		15,461,195	0.14	621,993

A continuity of the unexercised warrants to purchase common shares is detailed in the following table:

	December 31, 2020		December 31, 2019	
	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants
	\$		\$	
Outstanding at beginning of year	0.12	3,962,500	0.12	7,700,000
Transactions during the year:				
Issued	0.15	11,498,695	-	-
Exercised	-	-	(0.11)	(3,737,500)
Outstanding at end of year	0.14	15,461,195	0.12	3,962,500

12.4 Contributed surplus

The Company has a 10% rolling stock option plan (the "Plan"). Pursuant to the Plan, options to purchase common shares of the Company may be granted to certain officers, directors, employees and consultants of the Company. As at December 31, 2020, 1,185,972 (2019 – 2,456,103) options are available for issuance under the Plan.

The principal features of the Plan are as follows:

- (a) the maximum aggregate number of common shares that may be allocated and made available to be granted to participants under the Plan is 10% of the issued and outstanding common shares of the Company, less the number of options currently issued;

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- (b) the aggregate number of common shares that may be reserved for issuance pursuant to options granted to Insiders (defined as (a) a director or senior officer of the Company; (b) a director or senior officer of a “company” (as defined in the TSXV policies) that is an Insider or subsidiary of the Company; (c) a “person” (as defined in TSXV policies) that beneficially owns or controls, directly or indirectly, “voting shares” (as defined in TSXV policies) carrying more than 10% of the voting rights attached to all outstanding voting shares of the Company; or (d) the Company itself if it holds any of its own securities) shall not exceed 10% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;
- a. the aggregate number of options that may be granted to all Insiders within a 12-month period shall not exceed 10% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;
- b. the aggregate number of options that may be granted to any one individual within a 12-month period shall not exceed 5% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;
- c. the aggregate number of options that may be granted to any one “consultant” (as defined in the TSXV policies) within a 12-month period shall not exceed 2% of the issued and outstanding common shares (on a non-diluted basis); and
- d. the aggregate number of options that may be granted to all employees conducting “investor relation activities” (as defined in the TSXV policies) within a 12-month period shall not exceed 2% of the issued and outstanding common shares (on a non-diluted basis).

Continuity of the Company's outstanding and exercisable options follows:

	December 31, 2020		December 31, 2019	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
	\$		\$	
Outstanding at beginning of year	0.19	4,335,598	0.18	3,149,198
Transactions during the year:				
Granted	0.17	2,445,000	0.22	2,240,849
Exercised	-	-	(0.17)	(809,449)
Expired	(0.22)	(25,000)	(0.35)	(225,000)
Outstanding at end of year	0.19	6,775,598	0.20	4,355,598
Exercisable at end of year	0.19	6,225,598	0.19	4,035,598

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The following table provides additional information about outstanding stock options at December 31, 2020:

Exercise Prices	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)
\$0.10 to \$0.15	2,131,143	1.9	0.15
\$0.15 to \$0.195	2,608,606	2.0	0.19
\$0.20 to \$0.350	2,035,849	0.1	0.23
Outstanding	6,775,598	1.4	0.19
Exercisable	6,225,598	1.4	0.19

The Black-Scholes option pricing model was used to estimate the fair value of the issued options. The weighted average assumptions used for the options issued in 2020, were as follows: risk-free interest rate of 0.63%; expected volatility of 134.1%; expected life of 2.9 years; expected dividends of \$nil and weighted average common share price of \$0.14. The grant-date fair value of the options issued in 2020 is \$192,000.

The Black-Scholes option pricing model was used to estimate the fair value of the 2019 issued options. The weighted average assumptions used for the options issued in 2019, were as follows: risk-free interest rate of 1.75%; expected volatility of 152.28%; expected life of 1.9 years; expected dividends of \$nil and weighted average common share price of \$0.24. The grant-date fair value of the options issued in 2019 is \$377,000. All options issued in 2019, vested in 2019 except for 320,000, which will vest when certain operational milestones have been met. These milestones were not met as at December 31, 2020 and 2019. Subsequent to December 31, 2020, these options expired unexercised (note 22.1).

12.5 Share-based payments

The fair value of the stock options vested for the year ended December 31, 2020 was \$213,932 (2019 – \$323,042), which amount has been expensed in the consolidated statements of operations.

13. Related-party transactions and key-management compensation

The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the Directors, Chief Executive Officer, Chief Financial Officer, Chief Science Officer and Vice President of Operations. Related-party compensation paid or payable to key management is detailed below:

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	Years ended	
	December 31, 2020	December 31, 2019
Transactions:	\$	\$
Consulting fees	157,860	90,000
Share-based payments	210,221	287,464

As at December 31, 2020, \$2,496 (2019 - \$137,733) is owed to officers or directors of the Company or entities controlled by them. These amounts are unsecured, non-interest bearing and due on demand.

During 2020, the key management (or companies controlled by them) exercised nil options (2019 – 307,894), raising gross proceeds for the Company of \$nil (2019 - \$63,000).

During 2020, the key management (or companies controlled by them) participated in financings in the amount of \$179,844 (2019 - \$nil).

In August 2020, the Company settled outstanding amounts due to a shareholder at a discount of \$27,225. Pursuant to IFRIC 19.6, the discount is not reflected in the statements of consolidated operations but to common shares.

In May 2019, 471,698 common shares with a fair value of \$125,000 were issued to a vice president of the Company in settlement of related-party debt (note 12.2 (x)).

14. Government loans and grants

14.1 Federal Government of Canada emergency assistance

Due the global outbreak of Novel Coronavirus (“COVID-19”), the federal government of Canada introduced the Canada Emergency Business Account (“CEBA”). CEBA provides an interest-free loan (“CEBA Loan”) of \$40,000 to eligible businesses. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which, the CEBA Loan remains interest free. Repayment of \$30,000 by December 31, 2022, results in a \$10,000 loan forgiveness. In April 2020, the Company applied for and received a CEBA Loan and in September 2020, the Company repaid \$30,000, after completing a financing.

Pursuant to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at below-market rate is treated as a government grant and measured in accordance with IFRS 9 *Financial Instruments*: the benefit of below-market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA Loan at \$27,002, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest-free component. The difference of \$12,998 will be accreted to the loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss. Early repayment of the CEBA loan, resulted in a reduction to the grant component of \$611 and a total grant of \$12,387, with such amount recorded in the statements of operations.

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14.2 Ontario Agri-Food Technologies (“OAFI”)

In April 2020, the Company received an OAFI grant in the amount of \$15,000. The grant was provided by OAFI as reimbursement of 75% of the costs expended (to a maximum of \$15,000) for the Company's registered participation at The Global Forum for Innovation in Agriculture, held in the United Arab Emirates. The grant has been recorded as an offset to administrative costs on the statements of operations.

15. Revenue

During the year ended December 31, 2020, the Company earned \$91,248 (2019 - \$11,137). In 2019, the revenues were from two customers. The Company derives all of its revenues from its sole saturated CO2 plant-based production operating segment.

16. Cost of sales

Cost of sales for the Company are detailed as follows:

Years ended	December 31, 2020	December 31, 2019
	\$	\$
Commissions (note 10)	12,481	-
Consumable parts and tools (note 10)	90,042	94,912
Purchase discounts	1,600	3,325
Finished equipment sales (note 10)	87,592	14,879
Freight, shipping and purchase discounts (note 10)	8,475	363
Cost of sales	200,190	113,479

17. Research and development costs

The research and development costs for the Company are detailed as follows:

Years ended	December 31, 2020	December 31, 2019
	\$	\$
Technical consulting	68,494	160,158
Technical consumables	15,245	12,682
Research and development costs	83,739	172,840

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18. Significant contracts, commitments and litigation

18.1 Legal proceedings

The Company is, from time to time, involved in various claims and legal proceedings. In October 2019, the Company was served with a statement of claim filed in the Ontario Superior Court of Justice against the Company and two Officers. The case pertains to alleged breaches of non-competition agreements by these Officers and claims damages and an injunction against them and the Company. The Company's lawyers are managing the claim and are vigorously defending against this action.

The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

18.2 Licences

The Company previously obtained a licence (the "**Licence**") from Neptune Technologies & Bioresources Inc. ("**Neptune**") to sell its shrimp oil globally. Pursuant to the Licence, the Company had an annual obligation to pay a minimum fee of US\$250,000 which continued until the licence expires on December 16, 2024 or terminates (in which case a pro-rata payment equal to the annual amount multiplied by the number of months that have elapsed since the prior October 1st). In March 2019, the Company was notified by Neptune that it had transferred the outstanding amount owed to it by the Company, to an officer of the Company. In May 2019, the Company issued 471,698 common shares to the officer in settlement of the outstanding liability (note 13.2 (x)).

18.3 COVID-19

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. Although, the Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, it has experienced the effect of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

18.4 Commitments

The Company is party to certain management and consulting agreements with minimum commitments of \$117,000 due within one year.

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19. Segmented information

Operating segments

CO2 GRO's sole focus is commercializing its patent-licensed CO2 gas infusion technology license and its patent-pending Delivery Solutions™, both of which form the Company's Dissolved CO2 plant-production platform. As such, the Company's operating segment information is the same as that reported in the Consolidated Financial Statements.

Geographic segments

CO2 GRO operates in two geographic segments being Canada and the United States.

As at	December 31, 2020	December 31, 2019
	\$	\$
Identifiable assets:		
Canada	1,288,796	678,887
United States	41,409	28,454
	1,330,205	707,341

Years ended	December 31, 2019	December 31, 2019
	\$	\$
Revenue		
Canada	7,680	11,137
United States	83,568	-
	91,248	11,137

Years ended	December 31, 2020	December 31, 2019
	\$	\$
Income (loss) and comprehensive net loss:		
Canada	(894,921)	(1,472,969)
United States	(99,514)	(1,052)
	(994,435)	(1,474,021)

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Years ended	December 31, 2020	December 31, 2019
	\$	\$
Cash used for operations:		
Canada	(699,198)	(1,183,285)
United States	31,744	(88,442)
	(667,454)	(1,271,727)

20. *Change in non-cash working capital items*

Years ended	December 31, 2020	December 31, 2019
	\$	\$
Accounts receivable	971	(8,849)
Sales taxes recoverable	(13,519)	171,913
Prepaid expenses	(36,685)	(9,718)
Inventory	14,053	(179,619)
Accounts payable	117,293	(38,884)
Deferred revenue	4,345	-
	86,458	(65,157)

21. *Income taxes*

Deferred income tax expense (recoveries)

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2020	2019
	\$	\$
Loss before income taxes	(994,435)	(1,474,021)
Combined statutory rate	26.5%	26.5%
Expected income tax benefit	264,000	391,000

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	2020	2019
Share-based compensation	(57,000)	(86,000)
Change in unrecognized deferred tax asset	(207,000)	(305,000)
Deferred income tax recovery	-	-

The Canadian statutory income tax rate of 26.5% (2019 – 26.5%) is comprised of the federal income tax rate of approximately 15% (2019 – 15%) and the provincial income tax rate of approximately 11.5 % (2019 – 11.5%).

As at December 31, 2020, the Company had estimated combined non-capital losses for Canadian income tax purposes of approximately \$14,649,000 (2019 – \$13,931,000). These non-capital losses expire between 2029 and 2039 as follows:

Year	Amount
	\$
2029	112,000
2030	508,000
2031	298,000
2032	1,495,000
2033	2,315,000
2034	1,999,000
2035	1,561,000
2036	1,966,000
2037	1,421,000
2038	1,057,000
2039	1,140,000
2040	777,000
Total	14,649,000

Deferred income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2020	December 31, 2019
<i>Deferred income tax assets and temporary differences</i>	\$	\$
Non-capital losses carry-forward	14,649,000	13,931,000
Financing costs	15,000	53,000
SR&ED pool	37,000	37,000
Deductible temporary differences	14,701,000	14,021,000

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Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries will be able to utilize the benefits.

22. Subsequent events

- i. In January and February 2021, 718,839 options (including 430,000 variable compensation options (note 12.4) with an exercise price of \$0.22 each and 3,000 options with an exercise price of \$0.15 each, expired unexercised.
- ii. In February 2021, 1,081,161 options with an exercise price of \$0.22 each and expiry date of February 15, 2021, were exercised, raising proceeds of \$237,855.
- iii. In February 2021, 3,850,000 warrants with an exercise price of \$0.12 each and expiry date of December 14, 2022, were exercised raising proceeds of \$462,000.
- iv. In March 2021, 62,858 options with an exercise price of \$0.14 each and expiry date of January 2, 2022, were exercised raising proceeds of \$8,800.